

# City of Rockville Retirement Board

July 17, 2009

**PRESENT:** Alex Espinosa, Chairperson; Gregory Hazlett, Citizen Representative; Anita McCombs, AAME Representative; Phyllis Marcuccio, Councilmember; Carlos Vargas for City Manager; Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisey Harley, Personnel Administrator; Tim Peifer, Financial Systems Manager; Marsha Mathis and Rick Quinn, Principal Financial Group; as well as George Kiriakos and Taylor Dabrowski, Segal Advisors.

**ABSENT:** Cpl. Chris Peck, FOP Representative & Kyle France, Union Representative.

The meeting commenced at 10:00 a.m. with introductions. Mr. Espinosa requested that Item V be discussed after Item I. All were in agreement.

## **I. Approval of Minutes from Meeting of March 26, 2009 and June 5, 2009:**

Mr. Espinosa asked for a motion to approve the minutes from the March 26, 2009 meeting and Mr. Hazlett moved and Councilmember Marcuccio seconded. All were in favor. Mr. Espinosa asked for a motion to approve the minutes from the June 5, 2009 meeting and Councilmember Marcuccio moved to accept and Mr. Hazlett seconded. All were in favor.

## **V. Results of Bond and Mortgage Fund Search:**

Mr. Cohen explained that a sub-committee was formed to do a search to find a replacement for the Principal Bond and Mortgage Fund. The sub-committee, after reviewing search materials provided by Segal Advisors research department, narrowed the search to three candidates and conducted interviews. The three finalists interviewed were MD Sass, Segall Bryant & Hamill, and Chicago Equity Partners. The Board was asked if they had any questions, comments, or discussion items in regards to the search or search process to which there was none. Mr. Hazlett moved to approve the sub-committees' recommendation of the selection of Segall, Bryant and Hamill (SBH) as replacement of the Principal Bond and Mortgage Fund to manage the assets of the Defined Benefit Plan. Mr. Vargas seconded it. All were in favor.

Mr. Kiriakos and Ms. Dabrowski discussed with the Board that they needed to set up a custodial relationship. Proactively, Ms. Dabrowski received four custodial quotes from Principal, Exeter (custody on OPEB Plan), State Street and Comerica. They discussed the fee chart with the Board. The Board voted to allow Segal Advisors to work with Mr. Cohen to set up the custodian. In addition, Ms. Dabrowski said she had previously sent over the SBH contract, which needed to be finalized by legal counsel. Ms. Dabrowski said she also sent over the draft of the updated Guidelines, which need to be sent to SBH and approved by the Board. She explained to the Board that Segal would guide them through the transition. The participant communication has been drafted and the transition will take place as soon as all the contractual agreements with SBH & the custodian are resolved.

Next, Councilmember Marcuccio moved to approve the sub-committees' recommendation to replace the Principal Bond and Mortgage Fund with the Vanguard Total Bond Index Fund on the Thrift Plan. Mr. Hazlett seconded it. All were in favor.

The Board provided direction to Mr. Cohen to work with Principal to add the new Vanguard fund and provide notice to all participants with an effective date of September 1, 2009.

## **II. Performance Review – Principal Financial Group:**

Mr. Cohen explained that the Board needs outside vendors to assist in managing the plan and that we currently use Principal Financial Group and Segal Advisors. He said that it seemed like a good time for both companies to give a review of the services that they provide to the Board. He said that historically the City took a bundled approach with Principal and that they handled all aspects of both plans from investments, actuarial, and record keeping. About 1 1/2 years ago the Plan moved away from just utilizing Principal funds to utilizing outside fund managers. The Board is considering moving away from the bundled approach to managing the Plan.

Principal gave their presentation first. Rick Quinn introduced himself and explained that he has been

involved with the City intermittently for 30 years. He started with the City's contract in 1989 with a bundled plan. He said this approach provided many efficiencies. He went on to say that Principal has been in this service for 65 years and is the leading provider of defined contribution and defined benefit plans in the U.S. and the leader in Retirement Services. Customer service is important. Less than 1% of clients leave due to dissatisfaction. Principal works with many different investment advisors. The DB Plan is 100% funded by the City. The Thrift Plan is different. Mr. Hazlett requested target fees. Mr. Quinn said he would draw up a scope of services with a breakdown of administrative costs and investment costs. Principal acts as custodian for all funds except Prudential. He said that Principal would be proactive. Gavin stated that when there have been issues with Principal, that they have been very responsive.

Representatives from Segal Advisors and Principal Financial Group were asked to leave the room for the Board Performance Review.

The Board had a lengthy discussion in regards to the services that were offered by Principal Financial Group.

Councilmember Marcuccio had to leave at 11:50.

### **Lunch 12:00 – 12:25**

### **III. Performance Review – Segal Advisors:**

Mr. Kiriakos started with an overview of the company. He said that it is employee owned with no asset management and brokerage affiliations and no conflicts of interest. Segal has a 40-year history of successful track record, with consistent leadership with senior principals and low consultant turnover. They are headquartered in New York with offices in Boston, Cleveland, LA, and Portland. Segal has consulting experience that blends assets and liabilities and consults to over 230 clients and \$75 billion in assets. They have a dedicated consulting service team and a dedicated investment research team. Segal is a sponsor of defined benefit and defined contribution plans and is registered with the SEC under the Investment Advisors Act of 1940. Their administrative staff is collectively bargained and conducts business with union labor. Mr. Kiriakos continued with going over the services that Segal Advisors have provided over the last few years. Two items that he emphasized were that you should always understand the risk of various holdings and know what you own. He himself has been with the company for over 20 years.

Representatives from Segal Advisors and Principal Financial Group were asked to leave the room for the Board Performance Review.

The Board had a lengthy discussion in regards to the services that are offered by Segal Advisors.

After the presentation and discussion the following feedback was given:

- Mr. Cohen would like Mr. Kiriakos and Ms. Dabrowski to brief him on the reports and the items they are planning to present at any future meeting one week prior to the meeting date.
- The Board would like the meeting 45 days following the quarter end.
- Even in a commingled vehicle the Board would like the information that is included in separate accounts presented in the report.
- Educational material presented on topics of interest at least two times per year.

### **IV. Review of Quarterly Investment Performance Report:**

Mr. Kiriakos discussed the recent performance of the Defined Benefit Plan. The Board requested that Segal Advisors conduct an asset allocation study modeling Emerging Markets. The Board would also like to hear about managers at the next meeting as a potential replacement for the Principal International portfolio. They would like to see managers with an emerging market allocation as part of the International portfolio. In addition, they want to see a potential dedicated emerging markets manager search.

Next, Ms. Dabrowski discussed the rebalancing. She and Mr. Kiriakos recommended using the fixed income transition to rebalance. They are going to rebalance based on the current allocation. Depending on the decisions at the next meeting with the asset allocation and the international searches, they will move the recommended assets accordingly.

Next, Mr. Kiriakos and Ms. Dabrowski discussed the performance of the Thrift Plan. After a rather lengthy

discussion, the Board felt that they needed to conduct a vendor search. Mr. Hazlett moved to spend \$40K on vendor search and \$10K as needed for implementation. Mr. Espinosa seconded it. All were in favor.

Given the vendor search, the Board decided to postpone any additional fund changes. However, they are going to move forward with the fixed income change scheduled for September 1, 2009. The vendor search report will be delivered on November 19, 2009. Mr. Kiriakos and Ms. Dabrowski will need to set up a meeting to brief Mr. Cohen on the report.

Mr. Hazlett left at 2:30.

The meeting was adjourned at 2:45 p.m.